

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 6361

BILL NUMBER: SB 17

DATE PREPARED: Jan 25, 2002

BILL AMENDED: Jan 24, 2002

SUBJECT: Rainy Day Fund loans.

FISCAL ANALYST: Bob Sigalow

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FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill authorizes loans from the Rainy Day Fund for the taxing units located in Porter County that will experience a budget shortfall as the result of the bankruptcy of a steel manufacturer located in the county. The bill provides that the loans are interest free and must be repaid over a period not to exceed 10 years.

Effective Date: Upon passage.

Explanation of State Expenditures:

Explanation of State Revenues: (Revised) This bill permits qualified taxing units in Porter County facing budgetary shortfalls because of a taxpayer's bankruptcy to apply for loans from the Counter-Cyclical Revenue and Economic Stabilization Fund (Rainy Day Fund). The bill limits the total amount of the loans to \$28.0 M. No interest is to be charged on the loans. The bill requires that the loans be repaid within 10 years. The balance of the Rainy Day Fund as of June 30, 2001, was \$526 M and is estimated to be \$526 M at the end of FY 2002.

The Rainy Day Fund will suffer a loss of interest income on the outstanding loan balance. Based on the current six month U.S. Treasury Bill interest rate (1.88%), the state could forgo earnings of approximately \$44,000 in FY 2002, \$421,000 in FY 2003, and \$460,000 in FY 2004 if all of the qualifying units receive the maximum loan amounts. The total interest over the 10 year payback period is estimated at \$2.7 M. The loss of interest earnings will reduce the amount of funds available for transfer from the Rainy Day Fund to the state General Fund in FY 2002 and FY 2003 and the Property Tax Replacement Fund in years after.

Explanation of Local Expenditures:

Explanation of Local Revenues: (Revised) This provision would allow Porter County taxing units to each

apply for one or more loans with repayment within 10 years. In order for the taxing unit to qualify, the bill would require an expectation of *continued* significant revenue shortfalls due to a steel manufacturer's default on tax payments. The maximum amount of an individual taxing unit's total loans be equal to the amount of the unit's share of the tax payment that was defaulted in November 2001 plus the unit's share of the estimated May, 2002, and November, 2002, tax payments. Each 2002 estimated payment would equal the November, 2001, payment multiplied by 1.031. The total of all loans may not exceed \$28.0 M. The estimated maximum loan amounts are:

| Estimated Maximum Loans Due to Taxpayer Default Under Proposal | | | | |
|---|----------------------------------|-----------------------------------|---------------------------------------|-------------------|
| Unit Name | December 2001 Tax Payment | Est. June 2002 Tax Payment | Est. December 2002 Tax Payment | Total |
| Porter County | 1,951,200 | 2,011,700 | 2,011,700 | 5,974,600 |
| Portage Township | 11,300 | 11,600 | 11,600 | 34,500 |
| Westchester Township | 22,500 | 23,200 | 23,200 | 68,900 |
| Portage Civil City | 122,300 | 126,100 | 126,100 | 374,500 |
| Chesterton Civil Town | 900 | 1,000 | 1,000 | 2,900 |
| Burns Harbor Civil Town | 603,500 | 622,200 | 622,200 | 1,847,900 |
| Dune Acres Civil Town | 5,200 | 5,400 | 5,400 | 16,000 |
| Porter Civil Town | 700 | 700 | 700 | 2,100 |
| Duneland School Corporation | 6,876,800 | 7,090,000 | 7,090,000 | 21,056,800 |
| Portage Township School Corp | 189,700 | 195,600 | 195,600 | 580,900 |
| Westchester Public Library | 395,100 | 407,400 | 407,400 | 1,209,900 |
| Porter County Public Library | 12,100 | 12,500 | 12,500 | 37,100 |
| Porter Co Airport Authority | 40,000 | 41,200 | 41,200 | 122,400 |
| Total | 10,231,300 | 10,548,600 | 10,548,600 | 31,328,500 |
| The total of all loans may not exceed \$28.0 M. | | | | |

The bill stipulates that loan proceeds must first be used to repay loans already made by the Department of Commerce (DOC). The DOC loans total \$3 M.

The money used to repay the RDF loans must come from a fund that is subject to the unit's maximum permissible levy or from any available non-property tax source. The loan obligation may not be used as a reason to petition for an excessive property tax levy. Furthermore, payments of the delinquent tax, if any, are considered to be property taxes received and are subject to the 102% excess levy calculations. These stipulations mean that a unit cannot use a Debt Service Fund levy or exceed its maximum levy to make loan payments. It also means that if the bankrupt taxpayer makes any payments of delinquent tax and those payments cause total property tax receipts to surpass the certified tax levy by 2%, then collections over 102% of the levy would be deposited into the Levy Excess Fund which is used to offset the following year's tax levy. Additionally, the bill requires that if loan proceeds plus any tax payments from the subject taxpayer exceed the taxpayer's liability, then the excess would be deposited into the taxing units' Levy Excess Funds.

State Agencies Affected: State Board of Finance, State Board of Tax Commissioners (Department of Local Government Finance.)

Local Agencies Affected: Porter County taxing units listed above.

Information Sources: Porter County Auditor's Office; Local Government Database.